

General Information Letter: Illinois tax treatment of Roth IRAs.

June 17, 1998

Dear:

This is in response to your letter dated May 20, 1998, in which you request a letter ruling. The nature of your letter and the information you have provided require that we respond with a General Information Letter which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 86 Ill. Adm. Code 1200.120(b) and (c), enclosed.

In your letter you have stated the following:

- (1) The federal tax code disallows taxpayers with "excess" modified AGI of more than \$160,000 for joint returns and more than \$110,000 for other returns to contribute to Roth IRAs. Does Illinois have limits that also disallow contributions? If so, what are those limits?
- 2) The federal government imposes taxes when converting from a traditional IRA to a Roth IRA. However, if the conversion takes place in 1998 and the AGI reported on the federal tax return is less than \$100,000, the taxes are spread out over 4 years. What is Illinois' tax treatment of the conversion?
- (3) The federal government considers the conversion from traditional to Roth IRAs as penalty-free. Does Illinois also consider the conversion penalty-free or is it considered a premature withdrawal?
- (4) The federal tax law permanently excludes the interest earned on contributions to Roth IRAs from taxable income. How will Illinois treat the interest earned on Roth IRAs?

Ruling

Pursuant to Section 203(a) of the Illinois Income Tax Act (the "IITA"; 35 ILCS 5/101 et seq.) an individual computes his or her Illinois net income by starting with federal adjusted gross income and making various addition and subtraction modifications. There is no specific provision addressing contributions to a Roth IRA. It follows that Illinois does not limit nor expand the amount of the federally-allowed deduction for contributions made to a Roth IRA.

The IITA does not provide a subtraction for amounts converted from a traditional IRA to a Roth IRA. Accordingly, to the extent that such amounts converted are included in the taxpayer's federal adjusted gross income, the same will be subject to income tax in Illinois.

Illinois does not impose a penalty on early withdrawals from a Roth IRA.

The IITA does not provide an addition modification for income earned on contributions to Roth IRAs. Accordingly, to the extent that interest earned on contributions to a Roth IRA is excluded from federal adjusted gross income, the same will not be subject to income tax in Illinois.

As stated above, this is a general information letter which does not constitute a statement of policy that applies, interprets or prescribes the tax laws, and it is not binding on the Department. If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.102.

Sincerely,

Brian L. Stocker
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